

THE DIRECTOR OF
CENTRAL INTELLIGENCE

National Intelligence Council

23 May 1984

NOTE FOR THE DIRECTOR

8 JUN 1984

FROM: Herbert E. Meyer
Vice Chairman, NIC

1. These are the statistics that David Hart mentioned during your conversation with him on Monday. I've had these numbers checked through Maurice Ernst, and they are accurate.

2. The attached article suggests that David is on to something.

HEM

Herbert E. Meyer

Att:

1. UK Economic Statistics
2. "UK Business Confidence on
Upswing," The Journal of
Commerce, 21 May 84

UK Economic Statistics

1. Inflation: The UK has enjoyed the biggest decline in its inflation rate of any OECD country. The peak was 22% in early 1980 and it fell to under 4% in 1983. It is presently 5%.

2. The Budget Deficit (ratio of budget deficit to GDP): At 2.25%, it is lower in the UK than in any other OECD economy.

3. Balance of Payments: The UK has had a current account surplus for six out of the last seven years--accumulative surplus for the period is equal to that of Japan.

4. Labor Costs: The rate of annual increase in labor costs per unit of output fell from 22% in the second quarter of 1980 to 3% today.

5. Money Supply: The annual growth rate of money supply has slowed from 18% in 1980 to between 9 and 10% today. (A significant proportion of that growth is bank lending to the private sector.)

6. Productivity: Annual productivity growth in the manufacturing sector of the economy has been 6% since 1980. Productivity has increased 3% per annum across the economy as a whole.

7. GDP Growth: 1980 - declined 2%
1981 - declined 2 1/2%
1982 - 2% growth
1983 - 3% growth
1984 - projected 3 1/2% growth

NOTE: UK has the best overall economic growth rate of all countries in the EC and the best productivity growth rate in the OECD.

THE JOURNAL OF COMMERCE, Monday, 21 May 1984

UK Business Confidence On Upswing

By JANET PORTER
Journal of Commerce Staff

LONDON — Business confidence in Britain is booming and fears that the economic recovery might prove short-lived are now starting to recede.

Underpinned by consumer demand for the past couple of years, the upturn is now likely to receive further impetus from the improvement in world trading conditions, suggesting that the current recovery may be more durable than its predecessors.

Evidence of this is clear from the results of the latest Confederation of British Industry trends survey, published at the beginning of May, which showed that the U.K.'s manufacturing industry was enjoying its most widespread improvement in orders and output for seven years.

Although a large number of companies in Britain are still working at well below full capacity, the latest CBI quarterly survey was the fifth in a row to find greater business optimism, with British manufacturers particularly positive about the outlook for exports. There was a general expectation that export orders will continue to rise over the next four months.

What is especially cheering is the broad based nature of the upturn across all industrial sectors for the first time since recovery began more than two years ago.

With other major European economies now starting to pick up, and the U.S. economy still booming, the outlook for British exports is looking good. Stockbrokers Phillips and Drew expect U.K. exports to grow by 4.5 to 5 percent in volume terms this year

and around 4 percent in 1985, compared with a 1.5 percent rise in 1983.

In particular, Britain is mounting a major new sales onslaught on its largest overseas market, the United States. Although non-oil exports to the United States grew by 27 percent (in sterling terms) last year, Britain's share of U.S. imports fell from around 5 percent to only about 4.6 percent in 1983. The U.K. is now determined to regain this lost ground and is urging British exporters to take a fresh look at the market opportunities in the United States, especially on the West Coast.

Despite Britain's substantial balance of payments current account surplus last year of £2 billion, there was a huge deterioration in the country's non-oil account from a deficit in 1982 of £2.2 billion to £7.5 billion last year. The country's oil trade surplus is expected to rise slightly this year compared with last, but there is nevertheless concern about the non-oil account. In particular, the U.K. recorded a deficit in its manufactured trade last year, the first for some 200 years.

This reflects, in part, the fact that Britain's recovery began earlier than elsewhere and was fueled by domestic consumer demand rather than by exports. The U.K. authorities are now hoping that the export drive in the United States, coupled with improving demand for British goods from other European countries as their economies improve, will stimulate U.K. overseas trade and help sustain the recovery.

Meanwhile, improved business confidence, helped in no small measure by the budget in March, has encouraged investment intentions. Phillips and Drew, for example, say that prior to the budget they were looking for a rise in manufacturing investment of 6.5-7 percent in real terms this year followed by a 3.5-4 percent advance next year. However, because of the new tax measures, the brokers are now forecasting an increase of 10-12 percent in 1984 and a further 6-8 percent in 1985.

The CBI survey concluded that the volume of fixed investment would rise by about 7 percent this year. However, while a considerable improvement on recent years, it would only restore investment levels to around 1982 levels, the CBI notes.

Although now into its third year, Britain's economic upturn so far has been slow and shaky with many British companies seeing little evidence of any real recovery. Although still tentative in many sectors and regions, the upturn does, at last, seem to have taken a firm grip.

SENDER WILL CHECK CLASSIFICATION TOP AND BOTTOM			
<input checked="" type="checkbox"/>	UNCLASSIFIED	<input type="checkbox"/>	CONFIDENTIAL
<input type="checkbox"/>		<input type="checkbox"/>	SECRET
OFFICIAL ROUTING SLIP			
TO	NAME AND ADDRESS	DATE	INITIALS
1	NIO/Economics		7C
2			
3	VC/NIC (Meyer)		
4			
5			
6			
<input type="checkbox"/>	ACTION	<input type="checkbox"/>	DIRECT REPLY
<input type="checkbox"/>	APPROVAL	<input type="checkbox"/>	DISPATCH
<input type="checkbox"/>	COMMENT	<input type="checkbox"/>	FILE
<input type="checkbox"/>	CONCURRENCE	<input type="checkbox"/>	INFORMATION
<input type="checkbox"/>		<input type="checkbox"/>	PREPARE REPLY
<input type="checkbox"/>		<input type="checkbox"/>	RECOMMENDATION
<input type="checkbox"/>		<input type="checkbox"/>	RETURN
<input type="checkbox"/>		<input type="checkbox"/>	SIGNATURE
Remarks: Per our discussion, please review the attached. <i>The U.K. is at last making some progress in industry, but economic remains below 1979</i>			
FOLD HERE TO RETURN TO SENDER			
FROM: NAME, ADDRESS AND PHONE NO.			DATE
Herbert Meyer, VC/NIC			21 May
<input type="checkbox"/>	UNCLASSIFIED	<input type="checkbox"/>	CONFIDENTIAL
<input type="checkbox"/>		<input type="checkbox"/>	SECRET

 ILLEGIB
 ILLEGIB

UK Economic Statistics

1. Inflation: The UK has had the biggest ratio of any OECD country. The peak was 22% in early 1980 and it fell to under 4% in 1983. It is presently 5%. ✓

2. The Budget Deficit (ratio of budget deficit to GDP): It is lower in the UK than in any other industrial economy. It is 2 1/4% of GDP.

3. Balance of Payments: The UK has had a current account surplus for six out of the last seven years--accumulative surplus for the period is equal to that of Japan. *Due to oil*

4. Labor Costs: Increase in labor costs per unit of output fell from 22% per annum in the second quarter of 1980 to 3% per annum today. N.b. increase in _____ now less than the increase in prices.

5. Profitability: The commercial industrial sector is now 75% higher than in 1980. ?

6. The annual rate of money supply growth has slowed from 18% in 1980 to between 9 and 10% today. A significant proportion of that growth is bank lending to the private sector. ✓

7. Output: 1980 - declined 2%
1981 - declined 2 1/2%
1982 - 2% growth
1983 - 3% growth
1984 - 3 1/2% growth

8. Productivity: Annual growth in productivity in manufacturing sector

*Industrial
Production
is below 1979*

of the economy has been 6% since 1980. Productivity has increased 3% per annum across the economy as a whole.

9. UK has the best growth rate of all countries in the OECD and the best rate[✓] of growth of productivity in the OECD.

Not consistently

✓
*Unemployment
very high. Employment
not growing*